

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
POOLED LOAN PROGRAM, 1985 SERIES B**

EXECUTIVE SUMMARY

Applicant:	Ridgecrest Regional Hospital (“RRH”) 1081 N. China Lake Boulevard Ridgecrest, California 93555 Kern County	Amount Requested: \$3,700,000	Loan Term: 8 years Date Requested: May 30, 2002 Resolution Number: P-37
Project Sites:	1081 N. China Lake Boulevard, Ridgecrest, CA		
Facility Type:	General Acute Care Hospital		
Uses of Loan Proceeds: Proceeds will be used to purchase medical equipment and to fund various renovations.			
Type of Issue:	CHFFA’s 1985 Series B Pooled Loan Program (PLP), 7 day Variable Rate		
Existing Borrower:	1985 Series B PLP (1996), and 1998 CHFFA Equipment Loan Program		
Credit Enhancement:	Financial Guaranty Insurance Company (“FGIC”), <i>as bond insurer</i> Bank of America, <i>as Letter of Credit</i>		
Expected Credit Rating:	Aaa/AAA Moody’s/Standard & Poor’s (based on FGIC Insurance)		
Senior Underwriter:	Not Applicable		
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP		
Financial Overview: RRH has experienced solidly profitable operations over the last two years. While the hospital realized an operating loss in 2000, it maintains positive earnings overall with significant increases in net income. RRH’s balance sheet is strong with growing net assets and minimal debt.			
Sources of Revenue: <i>(FYE 1/31/02)</i>	<u>Amount</u>	<u>Percent</u>	
Commercial Insurance	\$12,050,273	44.8%	
Medicare	10,812,968	40.2%	
Medi-Cal	3,308,446	12.3%	
Private Pay	<u>726,244</u>	<u>2.7%</u>	
Total	<u>\$26,897,931</u>	<u>100.0%</u>	
Sources of Funds:		Uses of Funds:	
1985B loan	\$3,700,000	Equipment purchases	2,888,796
Borrower’s funds	570	Construction	644,000
Interest earnings	<u>45,000</u>	Financing costs	<u>212,774</u>
Total Sources	<u>\$3,745,570</u>	Total Uses	<u>\$3,745,570</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution providing for a Pooled Loan Program 1985 Series B Bonds loan in an amount not to exceed \$3,700,000 for RRH, subject to a back-up letter of credit as required by FGIC.			

STAFF SUMMARY AND RECOMMENDATION

Ridgecrest Regional Hospital (“RRH”)

May 30, 2002

Resolution Number: P-37

- I. PURPOSE OF FINANCING:** RRH seeks to purchase updated medical equipment for its nuclear medicine and cardiac care programs, which are growing due to the increasing elderly population in its service area. In addition, the hospital intends to use remaining loan proceeds for a variety of necessary renovation projects.

Equipment purchases..... **\$2,888,796**

RRH plans to purchase the following medical equipment:

Radiology PAC System	\$1,500,000
Nuclear Medicine Gamma Camera System *	506,148
MRI System (upgrade)	457,000
Anesthesia Machines (3)	210,000
ICU Patient Care Monitors	185,000
Cardiac Exercise Test System *	<u>30,648</u>

* This equipment has already been ordered.

Construction..... **644,000**

RRH has four separate buildings. The main hospital building (63,000 square feet) was constructed in 1967. The ICU/CCU building was constructed in 1976 and is attached to the west side of the main hospital building between two wings. The outpatient wing and warehouse were constructed in 1989 and consist of approximately 22,000 square feet. The RRH Annex was built in the 1950s (16,670 square feet) and houses Fiscal Services, Payroll, Data Processing, Education, and the Human Resources Departments.

Hospital renovations include the following:

Remodel Intensive Care Unit	\$90,000
Replace main hospital’s roof	339,000
Replace front parking lot	75,000
Paint and re-carpet Department Business offices (Human Resources and Education)	80,000
Replace kitchen and cafeteria floors	<u>60,000</u>

Estimates include the anticipated removal of asbestos from the roof and floors.

Financing Costs 212,774

FGIC Insurance Premium	\$56,610
Loan Discount.....	73,889
Letter of Credit.....	55,000
Application fee.....	21,275
Legal costs	<u>6,000</u>

Total Uses of Funds..... \$3,745,570

Financing Structure:

- Proposed loan to be funded under the Pooled Loan Program 1985 Series B Bonds. (See below for a description of the program).
- Secured by Financial Guaranty Insurance Company (“FGIC”) bond insurance with an approved Back-up Letter of Credit to be issued by Bank of America.
- Variable interest rate with a 7-day reset.
- Loan term not to exceed 8 years.

Description of 1985B Program:

The Authority established the 1985B Program in October 1985 with a \$100 million bond issue. To qualify for participation in the program, the healthcare provider must be an eligible health facility, as defined in the Authority’s statute and the project to be funded must be an eligible project under the statute. The bonds are rated “AAA” based on FGIC bond insurance. FGIC normally requires a back-up Letter of Credit for each loan approved.

In addition to bond funds, monthly borrower repayments into the program are available for new loans (recycling), with the limitation that any loan term cannot exceed the bond’s maturity date of August 23, 2010. After a number of bond redemptions over the years, the program currently has \$24.9 million in bonds outstanding, consisting of a \$13 million reserve fund, \$7.9 million in existing loans, and \$6.7 million of available, loanable funds.

One benefit of the program is its low, tax-exempt interest rate. The rate is set weekly, averaging 2.25% for 2001, and approximately 1.25% since the beginning of this calendar year. Another significant advantage is borrower payment offsets. Any earnings on the invested reserve funds over amounts required to pay bondholders are proportionately distributed to borrowers to offset their payments.

II. FINANCIAL STATEMENTS AND ANALYSIS:

RIDGECREST REGIONAL HOSPITAL

Statement of Activities

	<u>For the Year Ended January 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Revenues:			
Net Patient Revenue	\$ 32,339,376	\$ 26,897,931	\$ 25,715,788
Other Revenue	114,262	101,121	136,280
Total revenues	<u>32,453,638</u>	<u>26,999,052</u>	<u>25,852,068</u>
Expenses:			
Salaries and wages	11,206,463	10,164,656	10,505,285
Employee benefits	4,409,045	3,926,555	4,221,945
Professional fees	1,983,246	997,476	1,374,410
Supplies	4,703,945	4,348,441	3,911,006
Purchased services	940,693	866,442	607,027
Repairs and maintenance	761,884	739,547	725,241
Building and equipment rent	244,857	285,634	302,300
Utilities	817,901	603,077	502,519
Insurance	237,733	220,404	210,715
Interest	153,289	171,455	219,300
Depreciation and amortization	1,850,108	1,876,390	1,732,655
Provision for bad debts	1,471,611	1,381,133	1,322,215
Other operating expenses	361,895	300,891	251,607
Total Expenses	<u>29,142,670</u>	<u>25,882,101</u>	<u>25,886,225</u>
Operating income	<u>3,310,968</u>	<u>1,116,951</u>	<u>(34,157)</u>
Non-operating gains and losses:			
Investment income	417,492	439,331	348,633
Rental income	155,201	161,951	168,697
Grants and unrestricted contributions	34,821	110,591	30,930
Total non-operating gains and losses	<u>607,514</u>	<u>711,873</u>	<u>548,260</u>
Increase in unrestricted net assets	3,918,482	1,828,824	514,103
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>23,836,928</u>	<u>22,008,104</u>	<u>21,494,001</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 27,755,410</u>	<u>\$ 23,836,928</u>	<u>\$ 22,008,104</u>

RIDGECREST REGIONAL HOSPITAL**Balance Sheet**

	As of January 31,		
	2002	2001	2000
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,747,018	\$ 1,863,188	\$ 778,272
Assets limited as to use for current obligations	667,007	630,763	588,992
Patient Accounts Receivable, net	7,060,018	4,868,143	6,332,589
Other Receivables	12,376	44,794	42,880
Inventories	980,706	873,899	824,479
Prepaid expenses and deposits	235,558	239,483	165,188
Total current assets	<u>11,702,683</u>	<u>8,520,270</u>	<u>8,732,400</u>
Assets limited as to use	8,614,671	7,531,246	5,175,626
Property, plant and equipment, net	12,135,764	13,010,049	14,343,369
Other assets	52,201	63,397	74,593
TOTAL ASSETS	<u><u>\$ 32,505,319</u></u>	<u><u>\$ 29,124,962</u></u>	<u><u>\$ 28,325,988</u></u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 629,678	\$ 519,878	\$ 732,184
Accrued payroll and related liabilities	1,171,778	1,040,725	1,040,961
Estimated third party payor settlements	831,000	352,460	302,538
Current maturities of debt borrowings	932,407	1,260,801	867,731
Total Current Liabilities	<u>3,564,863</u>	<u>3,173,864</u>	<u>2,943,414</u>
Long-Term Debt (less current portion)	<u>1,185,046</u>	<u>2,114,170</u>	<u>3,374,470</u>
TOTAL LIABILITIES	<u>4,749,909</u>	<u>5,288,034</u>	<u>6,317,884</u>
NET ASSETS:			
Unrestricted Net Assets	<u>27,755,410</u>	<u>23,836,928</u>	<u>22,008,104</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 32,505,319</u></u>	<u><u>\$ 29,124,962</u></u>	<u><u>\$ 28,325,988</u></u>

Financial Ratios:

	Proforma (a)			
	FYE 2002			
Debt Service Coverage (x)	3.02	4.19	3.73	2.33
Debt/Unrestricted Net Assets (x)	0.21	0.08	0.14	0.19
Margin (%)		12%	7%	2%
Current Ratio (x)		3.28	2.68	2.97

(a) Recalculates January 2002 audited results to include the impact of this proposed financing.

Financial Discussion:

RRH has experienced solidly profitable operations over the last two years. While the hospital realized an operating loss in 2000, it maintains positive earnings overall with significant increases in net income.

RRH is experiencing a significant increase in utilization of hospital services. The primary reason for the increase is growth in the aged population in the Ridgecrest area, which increased 4.5% in ages 65 and over from 1999 to 2000. Additionally, the hospital is offering more choices of medical services that have resulted in higher outpatient and surgery utilization. Inpatient admissions have increased 10% from 1999 to 2002 and outpatient visits have increased over 18% during the same period.

Revenues have increased consistently over the three-year review period. Medicare and Medi-Cal revenues comprise over 50% of the hospital's revenues, while commercial insurance makes up almost 45%, and the balance is derived from private-pay.

In FY 2000, RRH realized a small operational loss. The loss is a carryover from the changes made by the federal government through the Balanced Budget Act of 1997, which caused dramatic reductions in Medicare payments to the hospital. RRH also experienced a lower patient census resulting in a higher number of employees per occupied bed, which further contributed to the loss in 2000. In 2001, management reduced its employee count from 7.05 to 6.45 per occupied bed and the average daily census increased to 25.7 from 22.5 in 2000, resulting in improved operations.

Nonetheless, RRH maintained positive earnings overall during the last three years with notable increases in net income ranging from over \$514,000 in FY 2000 to more than \$3.9 million in FY 2002.

RRH's balance sheet is strong with growing net assets and minimal debt.

The balance sheet reflects significant liquidity with over \$2.7 million in cash and a current ratio of 3.28x in 2002. Net assets increased 16% to over \$27.7 million in the most recent fiscal year up from \$23.8 in 2001.

In FY 2001, Patient Accounts Receivable declined from \$6.3 million to \$4.9 million as a result of the Information Services conversion in 2000, which adversely impacted patient billing causing excessive delays in the number of days of revenue outstanding in 2000. However, the successful implementation of this system has reversed this trend and in the current year, net patient receivables have rebounded to over \$7 million.

The hospital manages its operations with minimal use of long-term debt, as exhibited by its low debt-to-unrestricted net assets ratio, which is .08x in the most recent year. During the last three years, debt service coverage ratios have been consistently strong, averaging almost 3.5x. The pro forma debt service coverage ratio remains solid at 3.02x.

III. BACKGROUND

Founded in October 1962, Ridgecrest Regional Hospital (RRH) is a non-profit community hospital in a rural area. It is located in the High Desert of Southern California in the city of Ridgecrest, which has a population of approximately 35,000 people with about 5,000 people living in the surrounding area. The community is the home of China Lake's Naval Air Warfare Station which employs approximately 5,000 scientists, technicians, and support staff for research and development of the U.S. Navy's naval and air programs and projects.

The hospital is an 80-bed general-acute-care hospital that provides inpatient care, intensive care, and cardiac care services. RRH has a full-service Laboratory/Radiology Department with Ultrasound, Magnetic Resonance Imagery, CT Scanner, Nuclear Medicine, 24-hour Basic Emergency Services, pediatrics and obstetrical care, outpatient surgery, and a hospital-based Home Health Agency. RRH's mission statement is "to be a community based organization which provides and promotes comprehensive quality healthcare for the people of the Southern Sierra Region."

Governance

RRH is governed by a 9-person Board of Directors elected from a 50-member corporate body. No Director may serve more than two consecutive three-year terms. Currently, there are no vacancies on the Board.

Licenses

RRH is licensed by the State Department of Health Services as a General Acute Care Hospital. The hospital is licensed to operate 80 beds including eight for perinatal, eight for intensive Care, four for pediatric, and sixty unspecified general acute care.

Service Area, Competition, and Market Share

RRH is a sole community provider hospital for the Ridgecrest area. The nearest hospital is 90 miles away in Lancaster. In April 1997, a major surgical center opened providing competition for outpatient surgery patients only. RRH maintains a high market share due to its isolated area and quality medical services. According to the 1999 (most recent available) Office of Statewide Health Planning and Development statistics, the hospital's market share was 65.5%.

IV. UTILIZATION STATISTICS:

	Year Ended January 31,			
	2002	2001	2000	1999
Licensed (Operated) Beds	80 (55)	80 (55)	80 (55)	80 (55)
Admissions	2,805	2,639	2,710	2,534
Patient Days	9,396	8,170	8,552	8,417
% Occupancy (licensed)	32.2%	28.0%	29.3%	28.8%
% Occupancy (operated)	46.8%	40.7%	42.6%	41.9%
Average length of stay	3.4	3.1	3.0	3.3
Outpatient surgeries	1,670	1,694	1,332	1,052
Outpatient visits	37,643	36,472	33,529	30,700
Emergency room visits	12,695	12,934	12,505	11,575
Births	439	425	327	375
Inpatient surgeries	841	746	752	635

V. COMPLIANCE WITH SB 1953 SEISMIC RETROFIT REQUIREMENTS

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030. All general acute care hospital owners must perform seismic evaluations on each hospital building, and submit a plan for achieving compliance if the buildings do not meet SB 1953 seismic requirements.

RRH anticipates seismic bracing to be completed by 2008 at an estimated cost of \$350,000 to be financed through the hospital's depreciation account.

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through).

RRH accepts all patients regardless of their ability to pay. Savings generated by tax-exempt land allow the hospital to provide additional charity care. In January 2002, the hospital provided over six million dollars of care to the poor. Moreover, the proposed loan will allow the hospital to continue providing quality services to the community through its new medical equipment and updated facilities.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement).

RRH has submitted a completed Physician's list and a completed Certification and Agreement Regarding Community Service Obligation with its application as required by the Act.

VIII. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 01/31/02 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
1985 Series B PLP, 1996	\$2,654,000	\$1,216,416	\$1,216,416
CHFFA Equipment Loan Program, 1998	3,048,000	901,037	901,037
Proposed:			
1985 Series B PLP, 2002		N/A	3,700,000
TOTAL DEBT		\$2,117,453	\$5,817,453

(a) Includes current portion.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution providing for a Pooled Loan Program 1985 Series B Bonds loan in an amount not to exceed \$3,700,000 for RRH, subject to a back-up letter of credit as required by FGIC.